

Idaho Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054
208-334-2475



Idaho State Liquor Dispensary

Management Report on Financial Procedures

Issued: February 25, 2005
Fiscal Year: 2002, 2003, and 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO STATE LIQUOR DISPENSARY

PURPOSE AND SCOPE. We have completed certain financial audit procedures on the Idaho state liquor dispensary's financial activities that occurred during the fiscal years ended June 30, 2002, 2003, and 2004. These procedures, together with procedures performed at other state agencies, allow us to express our opinion on the statewide basic financial statements prepared by the state controller's office.

CONCLUSION. Four findings and recommendations are included in this report, that will, if implemented, improve efficiency, effectiveness, compliance, and controls of the dispensary. Although we discussed other issues for improvement, we conclude that the financial operations of the dispensary meet accepted standards and that the dispensary substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

FINDINGS AND RECOMMENDATIONS. We have summarized the four findings and recommendations below.

FINDING #1. The dispensary sells some products that it may not have legislative authority to sell.

Idaho code, section 23-203 authorizes the state liquor dispensary to regulate and sell alcoholic liquor. Alcoholic liquor is defined as any liquid or solid containing alcohol, spirits, wine, and any liquid or solid containing more than 4% of alcohol by weight. During fiscal year 2004, the dispensary sold non-alcoholic items such as non-alcoholic mixers, cocktail recipe books, bar tools, ice, and cocktail garnishes. Although the revenue from the sale of these items is small when compared with total sales, the availability and sale of these products may be in violation of the dispensary's authority. The sale of non-liquor items also adds to the administrative effort and cost to order, display, and account for these items.

We recommend that the Dispensary request an opinion from the Idaho Attorney General's Office to determine whether it has the authority to sell non-alcoholic items in the State-run stores.

FINDING #2. The 2% surcharge required by Idaho Code is not assessed on some items, resulting in the Dispensary not collecting \$11,300. Idaho Code, Section 23-217 directs the Dispensary to include a 2% surcharge on the price of goods sold through its retail outlets. The surcharge is collected by the Dispensary and then remitted to the Drug and Family Court Services Fund. The pricing model used in formulating the retail price of goods sold, exempts all non-alcoholic items from the surcharge. During fiscal year 2004, non-alcoholic sales totaled approximately \$565,000, resulting in \$11,300 in related surcharges not being collected.

We recommend that the Dispensary apply the surcharge to all appropriate items sold, as directed by Idaho Code.

FINDING #3. The Dispensary does not have a procedure to determine changes in local option sales tax rates, resulting in \$25,000 that was not collected. Idaho Code, Section 63-2602 allows counties to elect to collect a local option tax. The tax is to be applied to all sales that are taxable under the State's sales tax regulations. Kootenai County held a special election in November 2003 and approved a 0.5% local option tax, effective April 1, 2004. The Dispensary did not adjust its operations to begin collecting the additional tax by the effective date. Collections of the local option tax did not begin until September 1, 2004. Based on county sales information, we estimate that the delay resulted in the loss of approximately \$25,000 in local option tax revenue for Kootenai County.

We recommend that the Dispensary implement procedures to ensure changes in the tax assessments are completed on the appropriate effective date.

FINDING #4. Sales tax is collected from the sale of non-liquor items, but not deposited in the Sales Tax Account. Idaho Code, Section 63-3638A states that sales tax collected on the sale of liquor is to be credited to the Liquor Fund rather than the Sales Tax Account. The Dispensary sells products that do not meet the definition of liquor. The Dispensary's pricing formula includes sales tax in the price applied to liquor and non-liquor products alike. During fiscal year 2004, the sale of non-liquor products generated approximately \$34,000 in sales tax revenue.

We recommend that the sales tax collected on the sale of non-liquor items be remitted to the appropriate account, as required by Idaho Code.

PRIOR FINDINGS AND RECOMMENDATIONS. There were no findings and recommendations in the prior report.

AGENCY RESPONSE. The Dispensary has reviewed the report and outlined a corrective action plan for each finding and recommendation. The Dispensary's complete response is included in the Findings and Recommendations section of this report.

FINANCIAL SUMMARY. The procedures completed and described above help us express our opinion on the fairness of presentation of the *Statewide Comprehensive Annual Financial Report (CAFR)*. Although no opinion is given on the financial data presented in this report, one is given on all State funds in the *CAFR*, including the financial data presented here.

A summary of the Dispensary's financial operations for fiscal years 2002, 2003, and 2004 is provided below.

IDAHO STATE LIQUOR DISPENSARY

FINANCIAL STATEMENT – FUND 0418

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Beginning Cash Balance	\$3,354,818.59	\$5,311,251.18	\$5,782,170.11
Add Receipts:			
Liquor Sales	73,217,532.32	77,301,182.29	85,919,025.19
Other Goods	360,107.68	542,901.80	564,303.65
Equipment	4,755.00	1,620.78	1,775.00
Interest Earnings	346,967.85	321,290.57	186,980.43
Other Miscellaneous Receipts	7,553.59	16,744.74	67,556.23
Special Permits/Miscellaneous Receipts	<u>1,500.00</u>	<u>1,755.00</u>	<u>2,200.00</u>
Total Receipts	<u>\$73,938,416.44</u>	<u>\$78,185,495.18</u>	<u>\$86,741,840.50</u>
Total Cash Available	\$77,293,235.03	\$83,496,746.36	\$92,524,010.61
Less Expenditures and Transfers:			
Personnel Costs	6,325,111.03	6,505,982.81	6,878,722.58
Operating Costs	5,880,549.13	4,848,583.59	5,036,192.65
Liquor Purchases and Freight	39,162,429.00	41,994,031.70	46,239,950.67
Capital Outlay	720,603.69	2,784,678.15	250,404.13
Payments to Cities and Counties	11,598,291.00	13,286,300.00	19,588,000.00
Statutory Transfers:			
State General Fund	4,945,000.00	4,945,000.00	4,945,000.00
Alcohol Treatment Fund	1,200,000.00	1,200,000.00	1,200,000.00
Public School Income Fund	1,200,000.00	1,200,000.00	1,200,000.00
Cooperative Welfare Fund	650,000.00	650,000.00	650,000.00
Community College Fund	300,000.00	300,000.00	300,000.00
Supreme Court Appropriation	0.00	0.00	440,000.00
Drug/Family Court Services Fund	<u>0.00</u>	<u>0.00</u>	<u>1,471,837.00</u>
Total Expenditures and Transfers	<u>\$71,981,983.85</u>	<u>\$77,714,576.25</u>	<u>\$88,200,107.03</u>
Ending Cash Balance	<u><u>\$5,311,251.18</u></u>	<u><u>\$5,782,170.11</u></u>	<u><u>\$4,323,903.58</u></u>

NOTE: Statutory transfers to the State General Fund, Alcohol Treatment Fund, Public School Income Fund, Cooperative Welfare Fund, and the Community College Fund were established in Idaho Code in 1982. Except for increases to the statutory transfers to the State General Fund in the 1983 and 1984 legislative sessions, there have been no increases in any of the funds since 1982.

The transfer to Drug/Family Court Services and the Supreme Court was established during the 2003 legislative session. The payment to the Drug/Family Court Services will be continuous until Idaho Code is changed. The transfer to the Supreme Court was only made in fiscal year 2004 to establish the Drug/Family Court Services.

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho State Liquor Dispensary and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by the superintendent, Dyke Nally, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Eugene Sparks, CPA, CGFM, Managing Auditor